

City of Brisbane

Agenda Report

To: City Council via City Manager
From: Administrative Services Director
Subject: Adoption Resoltuion 2014-46 to implement the Capital Facilities Fee for the Utility Fund
Date: November 20, 2014

Purpose:

To provide a safe and secure water and wastewater system to the community which is financially viable.

Recommendation:

Adopt Resolution 2014-46 to setting the rate for a Capital Charge for water and sewer services.

Background:

On August 13, 2001 the City Council discussed Ordinance No. 458 which set the process for determining future water and sewer rate increases.

Subsequent to passing Ordinance No. 458, the California Supreme Court ruled that water and sewer charges are property related and subject to Proposition 218, the Right to Vote on Taxes Act. The Utility Subcommittee studied both the capital improvement plan (CIP) and a method to pay for the plan over the last year. The first portion of the CIP was brought forward and approved by the City Council during the 2013/14 budget process. The approved CIP was for \$5,000,000. The discussion on how to pay for this amount centered around how best to allocate the payment of the projects to both their useful life and the impact users have on the system. On April 21, 2014 City Council reviewed the Subcommittee's recommendation and directed staff to begin the process for implementing the proposed fee increase.

Staff drafted a letter which the Subcommittee reviewed and edited prior to mailing it out to all property owners and ratepayers. The letter was mailed prior to October 1, 2014 so it arrived by October 1, 2014 to Brisbane addresses. This was 51 days ahead of tonight's meeting which exceeded the State's required 45 day notice.

Discussion:

The Subcommittee's recommendation was to create a fee schedule which would provide stable income every year while still providing a lower cost for lowwater and sewer users. The reason for the stable income is bond payments are level over the 20 year period so the revenue taken in should not fluctuate too much with water used. The table is attached to Resolution 2014-46 (attachment A).

As noted above the City mailed the proper notification prior to October 1, 2014 giving more than the legally required 45 day notice. The City received a few phone calls, e-mails and letters related to the increase. Attachment B summarises the concerns raised by the residents who expressed concerns.

Fiscal Impact:

The fee will raise approximately \$350,000 a year which is the amount needed to pay for a 20-year \$5 million bond.

Measure of Success

The measure of success is balancing the government driven costs for safe water and properly handled wastewater with rates that are allocated fairly.

Attachments:

Resolution 2014-46
Responses to Public Inquiries concerning the Fee increase



Stuart Schillinger
Administrative Services Director



Clay Holstine
City Manager

Attachment B

1. There should be a lower rate for senior citizens who have lived in town for a long period of time.
 - a. The resident felt that seniors who have lived in town for a longer period of time can not afford increases even if they do not qualify for Pacific Gas and Electric's CARE Program. To qualify for CARE a one person household needs to have an income of less than \$31,460 a year. Not all seniors who live in town have this low of an income but any rate increase for water and sewer can still be a problem for these residents.
 - b. The current increase is anticipated to be passed on to all customers. Currently, the City gives a discount of about 40% for our Low Income Rate Assistance Program. The City spends about \$70,000 a year from the General Fund to pay for this program. If the City Council would like to give a discount for seniors the City would need to increase the subsidy coming from the General Fund. Also, the City Council would need to define at what age a person is considered a senior. Would it be people who are 60 and older or 65 and older? Would it be for all seniors or would there need to be other qualifers like income or years of living in town. The rationale for income would be there may be some senior citizens who have what might be considered a high income and therefore does not need a discount from the City to pay for the increase. If it was for people living in town for a certain period of time, as suggested by the resident, the question would be how long of time would someone need to live in town to qualify.
2. Are there hardship provisions in this program.
 - a. As currently conceived there are no hardship provisions. The proposal was set to take enough money from all of the users to pay for the bonds which need to be issued. Any decrease in revenue taken in from this fee would need to be offset by a subsidy from the General Fund. The General Fund already subsidizes the Utility Fund about \$70,000 a year to cover the current Low Income Rate Assistance program.
3. The City Council should instead of using a graduated schedule bill everyone equally for the water and sewer projects.
 - a. The City Council reviewed this proposal and determined that this was too great a burden on smaller households and users.
4. There were a couple of queries about what the impact to the individual water and sewer payments were.
 - a. Staff responded directly to the residents with the impact to their bills based on the amount of water used over the past year.
5. Someone wanted to know if this was the last rate increase they would be experiencing.
 - a. Staff responded by saying no. There would continue to be rate increases to cover basic inflationary costs of running the system, the cost for the improvements to the Hetch-Hetchy system, and additional costs to complete the projects laid out in the 2001 Master Plan. That this was the first of series of anticipated increases to the Capital Project Rate. As laid out in the April City Council report, staff anticipates selling a series of 20-year \$5 million bonds over the next 15 years.

6. There were three people who were concerned with the typo “protect” for the word “protest”.
 - a. Since the overall explanation of the process for telling City Council about the rate increase was laid out this typo does not negate the entire letter.
7. There was not enough information in the letter sent to the residents and property owners to allow them to evaluate the proposal.
 - a. The letter provided residents the information required by law which is the increase individuals could anticipate paying if the new charge was passed. This was provided in the rate table included in each letter. Additionally, the letter also included the reason why the rate increase was happening. This is due to the need to complete \$5 million worth of projects which have been included on the Master Plan since 2001. It included the specific projects which this \$5 million would be spent on. It also provided an explanation why the City Council determined bonding for the projects was the preferred alternative.
8. The letter did not include who was subject to the fee.
 - a. The letter was sent to all individuals who would be impacted by the fee which is all ratepayers. Therefore, anyone who received the letter would need to pay the new rate.
9. The April 21, 2014 staff report did not say if the 2,038 users was the entire number of users.
 - a. The 2,038 users is the entire number of water and sewer ratepayers in the City.
10. The April 21, 2014 staff report did not classify the various users into the type of occupancies in the City.
 - a. Since the rate being recommended is not based on the type of use of the property there is not a need to split the users into residential, landscape, and commercial.
11. There was a concern that just because someone is using more or less water does not necessarily mean the customer is conserving water. If the customer is not conserving water then a graduated rate schedule may not be encouraging water conservation and may instead be favoring customers with less people using the service.
 - a. Although this is true, it is often correlated that less people using the system does mean that they are using less water. Without going to a budget allotment of water use per customer there is not a good way to determine how well people are conserving water. Our system is not currently set up to track or use this information, nor do we have the staff time to do the additional work for this type of billing. Therefore, the City uses water use as a proxy for conservation efforts. The current rate schedule reflects this method of billing.
12. Projects were listed as repairs instead of capital projects and you were concerned that new development would pay for the improvements they required.
 - a. The projects which were approved were included in 2001 Master Plan which was reviewed by City Council. Projects are only for the improvement of the existing system and do not include new development projects. As stated in the Master Plan projects for development will be paid for by new development.

13. There seemed to be a question concerning the overall cost of the Capital Improvement Plan and the current portion of the plan approved with 2013/14 budget.

- a. The Capital Improvement Program was started in 2002. The City has already done about \$11 million worth of projects. The remaining cost for Capital improvements over the next twenty years is estimated to be \$20 million. City Council determined to phase this in by approving \$5 million worth of improvements every 5 years. The first phase will be \$5 million and will begin when the Utility Fund has the money to do the projects. It is anticipated that the City will do the second phase in 5 years the third phase in 10 years and the 4th phase in 15 years. The current projects on the Master Plan would be completed within the next 20 years.

14. Is money available in reserves to pay for these projects this year?

- a. No, the Utility Fund has about \$3 million in available cash, however this is not reserved for capital projects. One million dollars is the minimum amount required by Council policy to be on reserve at all times to cover unexpected problems (ie. Earthquake, or unanticipated system failures). If there is a major problem with the system the \$1 million may not be enough to cover current day costs of repair and lost revenue. The other cash available covers the system for downturns in the economy or reduced water use during droughts. The last downturn to our economy and the resultant water use decrease forced the City to raise water and sewer rates. The current drought may cost the Utility Fund over \$500,000 a year in lost revenue. If we do not want to be raising rates during droughts or economic downturns we need to keep funds on hand.

15. Why must the City do these projects now?

- a. These projects have been on the City's Master Plan for over 10 years.
 - i. Bayshore Blvd South – 8” Force Main Underground relocation (construction).
 - ii. Glen Park Pump Station Upgrade
 - iii. Pressure Reducing Valves (PRV) Construction and Fire Main on Annis/Line F,G,H,I,J and Annis Pressure Reducing Valve
 - iv. Supervisory Control and Data Acquisition System Replacement

City Council took a tour of our water and wastewater system and in conjunction with our Public Works Director determined these were our top four most critical needs. These projects ensure the health and safety of our residents and the general public by providing adequate water pressure for firefighting, ensuring the automatic controls for the system (which regulate water flows between zones and filling of the reservoir tanks) are brought up to date, and a force main is not exposed to the elements and other hazards by being above ground which if damaged could allow untreated wastewater to flow into the Bay.

16. What other projects need to be completed over the next 20 years?

- a. The projects are listed in the 2001 Master Plan and include water and sewer pipe replacement, replace water tanks, and general improvements to make the system more efficient and effective. Additionally, the Master Plan needs updating. Each project will be reviewed and will need Council approval prior to any work beginning.

17. Methods for public input into the process prior to the final vote

- a. City Council held a meeting in April to discuss the proposed rate increase. Residents had the opportunity at that time to comment on the proposal. The letter was mailed out

at the beginning of October giving residents and property owners more than the law required 45 days to contact Council Members and staff regarding their thoughts on the proposal. A few members of the public did make their concerns known and these will be reviewed along with the proposed rate increase. Council members are always available to hear from the public on any issue that concerns them.

18. The method used for the fee increase was based on water usage and not flat across the entire system.
 - a. The Facility Committee met for a number of meetings to determine how best to spread the cost of the necessary projects to the users. The Committee determined it wanted to continue to reward conservation by having a tiered system while at the same time ensuring a relatively level amount of income was available to pay for the bonds over the next 20 years.
19. The letter says there is a fixed monthly fee and the table shows the bi-monthly rate applied on the water and sewer bill.
 - a. This does not create a conflict. Since the billing period is bi-monthly the rates shown are what the rate payers will pay on their bi-monthly bill. The fixed monthly cost would be half of this. However, in order to not deceive the rate payer, the City did not want to show the monthly fee and have users say that they were being billed twice what the letter said.
20. What happens if the rate increase is not passed?
 - a. If the rate increase is not passed the City will not have the money to fix these long-standing problems to our system. We would instead wait until funding did become available or until a key component of our system failed and then fix it on an emergency basis. If this happened we could be without water or the ability to move wastewater to San Francisco for a period of time. We would also need to do emergency repairs which inevitably cost more than doing repairs in a timely and systematic manner. Furthermore, we would have no more money in the future than we do now to pay for these repairs which would mean we would need to borrow money from the General Fund (if available) which could reduce the services the overall community receives, or wait to fix the problem until we found some other willing lender.
21. Will it cost more based on interest payments and professional fees to bond for the projects rather than pay cash.
 - a. It does usually cost more to bond based on interest payments and professional fees. However, the Committee and the Council determined it was better to have a flat payment over time for two reasons. First, if the water and sewer users needed to pay \$5 million up front to pay for the projects then everyone would need to pay double for water and sewer this year. This seemed like too large of a burden on our ratepayers. Second, since these projects have a 20 year or more life span then it should be paid for over a 20 year period. This ensures the people who are using up the life of the project actually pay for it instead of people paying now and possibly not using the system in 5 – 10 years because they no longer live in the City.
 - b. As a side note depending on future inflation rate bonding for the money today in a low interest rate/low inflation rate environment could in fact be cheaper. If the interest rate

we earn on our money exceeds the interest rate we pay then it in fact becomes cheaper to borrow money than to use cash reserves.

22. Does the approval of the fee increase this year include the other increases related to future anticipated bond issues.
 - a. No, each time the City would need to raise the Capital Project fee it will need to abide by the existing State Laws to implement the fee. Given the current laws the City will need to send another letter to ratepayers and property owners prior to increasing the fee from what is stated in the letter. If the law changes the City will need to abide by the changes in the law.

23. Sent by Administrative Services Director and not Mayor
 - a. Council directed staff to send a letter which was reviewed by the Council Subcommittee. This process was followed. In the future the letter could be sent over the Mayor's signature.

RESOLUTION NO. 2014-46

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
BRISBANE SETTING THE RATE FOR A CAPITAL CHARGE FOR
WATER AND SEWER SERVICES**

WHEREAS, the City Council finds and determines that a separate rate is necessary for ensuring water and sanitary sewer capital projects are completed; and

WHEREAS, a proposed schedule for capital charges has been presented to the City Council, a copy of which is attached hereto and incorporated herein by reference; and

WHEREAS, as required by State law, notice of the proposed increased charges was given to the persons who are responsible for payment of such charges, as shown on the records of the City, which included notice of a public hearing to be conducted by the City Council at which time any protests to the proposed increases would be considered, such notice having been given at least 45 days prior to the hearing; and

WHEREAS, on November 20, 2014, the City Council conducted a public hearing on the proposed increases in sewer and water charges, at which time any person was given an opportunity to protest the same; and

WHEREAS, protests were not made by a majority of the persons who would be responsible for payment of the sewer and water charges,

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Brisbane as follows:

1. The schedule of capital fee charges attached hereto is approved (attachment A).
2. The increased sewer and water service charges shall be implemented in the bimonthly bill which will be sent to customers in March, 2015.

Mayor

I hereby certify that the foregoing Resolution No. 2014-46 was duly and regularly adopted at the regular meeting of the Brisbane City Council on November 20, 2014, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Sheri Marie Spediacci, City Clerk

Attachment A

Units of Water used (bi monthly billing cycle)	Proposed Rate (in Dollars)
0	\$ 10
1	12.5
2	15
3	17.5
4	20
5	22.5
6	25
7	27.5
8	30
9	32.5
10	35
11-19 units	38
20-40 units	50
>40 units	65